CSMFO
COVID-19 BEST PRACTICES: ANALYZING REVENUES
KNOW YOUR STARTING POINT

• Know your base – what moves the needle for your agency’s revenues and why so that it can be clearly communicated when necessary

• Draw you starting line – provide others with a common place to start the conversation as difficult as it may be

• Listen to leaders and the community regarding their thoughts and what they may be willing to change – advance think about those perspectives to be ready with possible solutions
STATEWIDE SALES TAX TRENDS

1% Bradley Burns Local
SALES TAX BY MAJOR INDUSTRY GROUP
CALENDAR YEAR

*ADJUSTED FOR ECONOMIC DATA
STATEWIDE POINT OF SALE AND COUNTY USE TAX POOLS
CORONAVIRUS (COVID-19) IMPACTS

IMPACT ON CALIFORNIA SALES TAX AND FORECAST:

• HdL Forecast currently assumes statewide 'shelter-in-place' directive will continue until the end of May 2020 – 2.5 months – Great Shutdown

• Virus runs its course by the end of September (no “return of virus and subsequent economic impacts” factored in)

• Unemployment, household debt (mortgage, credit cards, auto loans) expected to be a lag on economy afterwards

• Local sales & use tax declines are expected to continue through end of 2020, with only moderate gains/re-growth thereafter

• Businesses with tight profit margins (like restaurants) and those carrying heavy debt loads (large retailers) may not be able to recover and eventually close permanently

• Stimulus checks will mostly be spent on food, housing (mortgage/rent) and other essentials – some of which is not taxable
STATEWIDE SALES TAX TRENDS
1% Bradley Burns Local Forecast

FY 2020/21 projected to decrease 10.9% compared to FY 2018/19
## Major Industry Group Forecast

<table>
<thead>
<tr>
<th>Industry/Group</th>
<th>1Q20</th>
<th>2Q20</th>
<th>20/21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Autos/Transportation</td>
<td>-6%</td>
<td>-55%</td>
<td>-6%</td>
</tr>
<tr>
<td>Business/Industry</td>
<td>-15%</td>
<td>-30%</td>
<td>-5%</td>
</tr>
<tr>
<td>Fuel/Service Stations</td>
<td>-10%</td>
<td>-50%</td>
<td>0%</td>
</tr>
<tr>
<td>Restaurants/Hotels</td>
<td>-10%</td>
<td>-60%</td>
<td>-7%</td>
</tr>
<tr>
<td>Building/Construction</td>
<td>-7%</td>
<td>-40%</td>
<td>0%</td>
</tr>
<tr>
<td>Food/Drugs</td>
<td>5%</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>General Consumer Goods</td>
<td>-15%</td>
<td>-45%</td>
<td>-3%</td>
</tr>
<tr>
<td>State/County Pools</td>
<td>15%</td>
<td>10%</td>
<td>7%</td>
</tr>
</tbody>
</table>

*Note: All percentages are compared to the previous year.*
DOES IT COMPARE TO THE GREAT RECESSION?

• Not yet it doesn’t... we’ve never shutdown the US/CA economy
• Great Recession - Dec 2007 – June 2009 – 19 months, spurred by Housing Bubble and subsequent Subprime Mortgage Crisis
• GR - gradual decline in global economy to the bottom hurt consumer confidence and unemployment leading to prolonged recovery
• Now – sudden/immediate drop, might not create same prolonged damage to consumer confidence and unemployment
HOUSEHOLD AND CORPORATE DEBT

U.S. Household Debt Tops $14 Trillion for the First Time
Total household debt balance in the United States, by category

Source: New York Fed Consumer Credit Panel/Equifax

U.S. Corporate Debt Has Climbed to an All-Time High in the Decade Since the Financial Crisis
30-Year Period Through Oct. 2019

Source: Bureau of Economic Analysis, Federal Reserve, U.S. Global Investors
WHAT DOES THE REOPENING LOOK LIKE TO HdL...

• Restaurants and hotels currently closed will need time to staff and stock up
• Summer travel expected to be limited: staycations, lack of foreign travelers
• Business travel expected to linger - travel expenses easiest to reduce
• Consumers forced to shop online may change habits going forward, negatively impacting brick and mortar even further
• Auto industry incentives expected motivate car buyers – Cash For Clunkers 2?

• Building - construction not as immediately impacted since large scale development still allowed to continue, low finance rates may increase infrastructure spending
• Gas Station receipts damaged by drop in demand (lack of commuters) causing dramatic price drops to crude oil and gas prices, may continue into 2021 until global supplies are reduced
SALES TAX – SHORT TERM CONCERNS

ECONOMIC RELATED CASHFLOW CONSIDERATIONS:

• March Advance – ‘normal’ due to prepayments from taxpayers

• **April Advance** – advance portion only reduced about 6% by CDTFA - due to number of prepayments and quarterly filings received to date
  • Posted on CDTFA’s website as of April 21 (now)

• **May Clean Up Payment** – will heavily depend on actual amounts collected and returns filed for 1Q20 – when the rubber meets the road

• June-July-August Advance and Clean Up payments – represent 2Q20 activity, much more impacted by shutdown
Governor Newsom Executive Order (3/30/20)

• 90-day deferral up to $1 million in sales tax liability, in effect through 7/31/20, no sign up necessary – if qualify, don’t file
• Could move cash from 1Q20 into 2Q20, especially May 2020 into August 2020.
• Since through 7/31/20 (end of 2Q20 filing period), could move cash from 2Q20 into 3Q20. However, 2Q20 actual receipts will be considerably smaller due to shutdown – reducing potential receivable.
DEFERRAL IMPACTS

CDTFA 12-month Installment Program

• For small businesses, $5 million or less in annual taxable sales
• Defer maximum $50,000 tax liability, 12-month interest and penalty free, must be paid in full by 7/31/2021
• Must apply for monthly installment plan with CDTFA
• Might first take advantage of 90-day deferral then 12 month installment plan after 7/31/20. Potential to move tax revenue from 1Q20 to 2Q20, then 12 monthly payments afterwards – moving from FY 19-20 into FY 20-21.
OTHER SALES TAX RELATED REVENUE IMPACTED

• Locally adopted Transaction & Use Tax (TUT) measures
  – New measures effective April 1, 2020 – first advance in June 2020

• Countywide Transportation Funding
  – Both Local Transportation Fund (0.25% of base sales tax rate) and countywide TUT’s designated for transportation

• Proposition 172 – Public Safety Funding (0.5% of base sales tax rate)

• County Realignment – Public Safety-Mental Health-Welfare (1.5625% of base sales tax rate)
HdL RESOURCES
https://www.hdlcompanies.com/covid-19

HdL COMPANIES:  Covid-19 Resources

LOCAL 1% TAX:  90-Day Extension, $50k Payment Plan

COUNTY TRANSPORTATION FUND/LTF:  90-Day Extension, $50k Payment Plan

SPECIAL DISTRICTS/TRANSACTION TAXES:  90-Day Extension, $50k Payment Plan

PUBLIC SAFETY/PROP 172 -  90-Day Extension, $50k Payment Plan
PROPERTY TAX – ECONOMIC IMPACTS

FY 2019-20 CONSIDERATIONS

• Assessed values were as of January 1, 2019
• Many counties chose not to allow deferrals for April 2020 payments
• Cities that participate in County Teeter Plans may help limit exposure to near term delinquencies

FY 2020-21 CONSIDERATIONS

• Assessed values that were enrolled on January 1, 2020, reflecting Calendar Year 2019 activity, have already been set prior to the shutdown.
PROPERTY TAX – ECONOMIC IMPACTS

- Experienced listings pulled in February by sellers not needing to move, waiting for March real estate data
- Summer moving season will be true test
- Talk to local real estate agents to get timely information
- First impacts – likely supplemental revenues in FY 20-21
- Anticipate slow growth past FY 20-21 until further information is available
• HdL client data shows 60% drop in revenue through March
• 90% of hotels in US are franchised
  • Possible shuttering of properties as franchisees will be stressed by lenders
• 70% of hotel employees laid off or furloughed
  (American Hotel and Lodging Assoc)
• Phased reopening expected for resorts and destination locations
• Communication with local hotels key to forecasting
• Cities asked for deferrals, not recommended but can require to file a return to track a receivable
Revenue impacts dependent on:
- Fee structure - HdL Clients – 60% gross receipts (more impacted), 40% employee based or flat fee
- Timing of fee renewals:
  - annually (calendar year/original month of application)
  - monthly
- Many cities enacted/considering deferring fees – monthly structure will incur bigger impact
Thank you!

BOBBY YOUNG
Director of Client Services, HdL Companies
byoung@hdlcompanies.com
(714) 879-5000